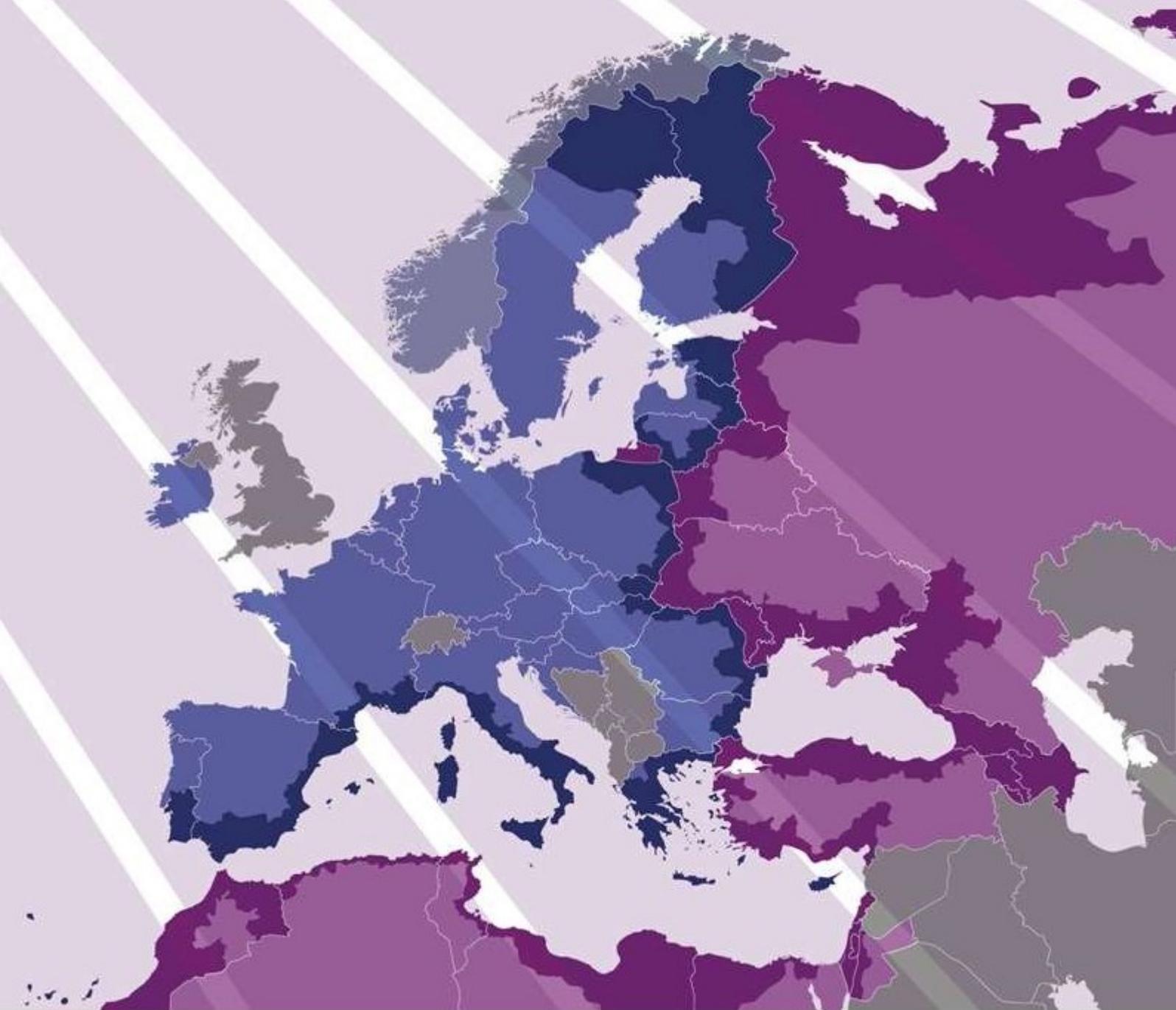


Transitioning to Interreg NEXT – Simplified cost options

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1. Introduction

Even if the ENI CBC Implementing Rules allow for the use of the simplified cost options (Art.47), their actual use has been limited to one *off-the-shelf* flat rate for indirect costs, as well as the use of programme-specific lump sums in some instances¹, such as:

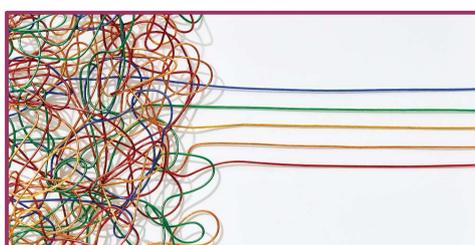
Lump sums (in some programmes)	Flat rates
<ul style="list-style-type: none"> • Project preparation costs (<i>Estonia-Russia; Latvia-Russia; Latvia-Lithuania-Belarus</i>) • Projects with limited financial value - financed either fully or partially via lump sums (<i>Poland-Belarus-Ukraine, Karelia, Estonia-Russia</i>) 	<ul style="list-style-type: none"> • Indirect costs for up to 7% of total direct eligible costs (except infrastructure) – <i>all programmes</i>

As a result, programmes will migrate from a seldom use of the simplified cost options (SCOs) to a wide menu of possibilities, including their mandatory use in some instances. When compared with the use of SCOs in Interreg programmes 2014-2020, this represents a different point of departure for the ENI CBC community.

Due to the importance of SCOs in post-2020, the topic has been heavily supported by various activities of the European Commission, Interact and other actors. In order not to repeat what has been already published and discussed, the aim of this document is to:

- present the SCOs that practitioners consider themselves as most relevant for Interreg NEXT programmes;
- highlight two Interreg NEXT case studies in selecting the SCOs;
- describe the key steps identified by the Interreg NEXT programmes to raise the awareness and knowledge of the applicants/beneficiaries/controllers.

In addition, we also provide a summary of '*happenings in the outside world*'. For this purpose, in the last section of the document you will find a recommended reading list on this topic.



¹ In February 2022 the European Commission has suspended the cooperation with Russia and its ally Belarus in the European Neighbourhood Instrument cross-border cooperation programmes.

2. SCOs in Interreg NEXT

On 15 September TESIM organized an [event dedicated to opportunities and challenges on the use of SCOs in Interreg NEXT](#). One of the objectives of the event was to carry out a mapping of their potential use in the 2021-2027 programming period.

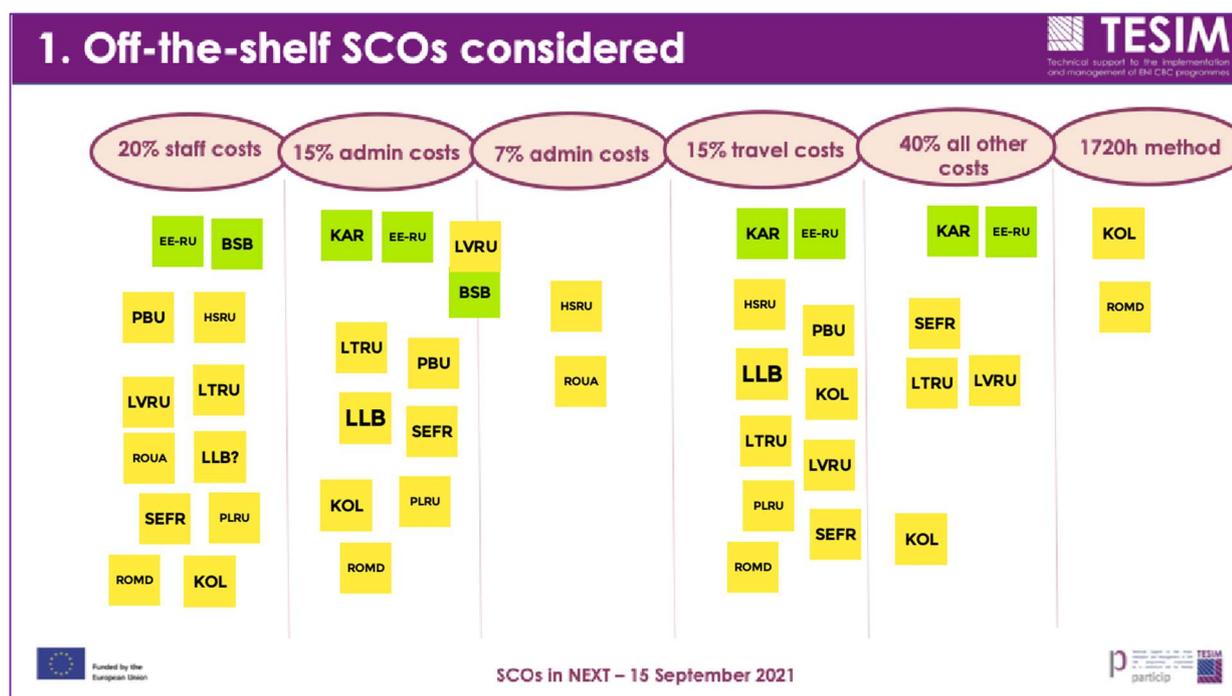
2.1. Off-the-shelf SCOs

What did the mapping reveal?

Even if the programmes have not yet taken final decisions, programme bodies envisage a strong use of off-the-shelf SCOs. Most programmes actually consider to use the following flat rates:

- 20% staff costs²;
- 15% for travel and accommodation costs³;
- 15% indirect⁴ costs (so-called administrative costs).

On top of these community-wide choices, several programmes also consider the use of the 7% flat-rate for indirect costs, whereas only five of them consider the possibility of using the 40% for staff costs and only two the 1.720 hours method for staff costs:



* The picture above describes the intentions of the programmes at a certain point in programming. The SCOs finally chosen might differ. Nevertheless, an intensified use of SCOs is clearly visible.

² Article 39.3(c) of the Interreg Regulation.

³ Article 41.5 of the Interreg Regulation.

⁴ Article 54 (b) of the Common Provisions Regulation.

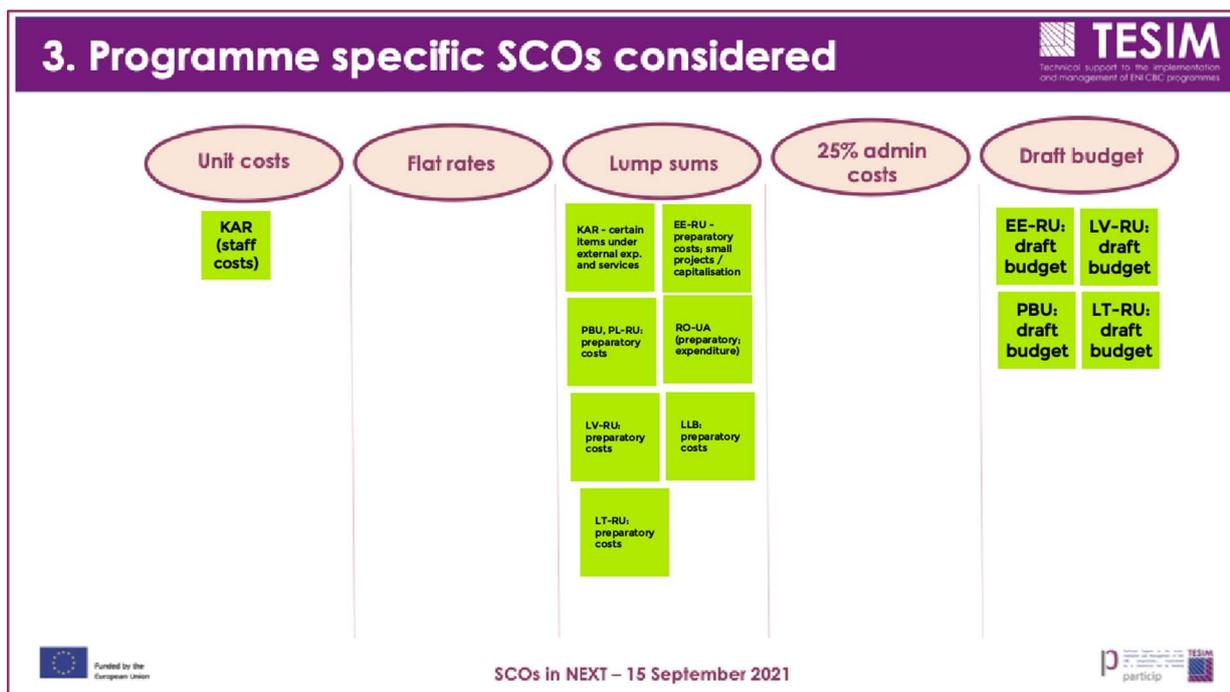
Programmes intend to move from one off-the-shelf method in ENI CBC (7% flat rate of indirect costs) to multiple off-the-shelf SCOs!

2.2. Programme-specific SCOs

By the choice of preferring multiple off-the-shelf methods, which already provides a significant simplification, not all programmes are intending to top this with the definition of programme-specific SCOs.

However, seven programmes are considering lump sums for project preparation and four consider to use the draft budget approach. The other programmes have not yet considered programme-specific SCOs.

There is no indication so far that any of the NEXT programmes might consider programme-to-EC level SCOs, requiring to fill in the appendix to the programme template.



Programmes intend to expand the use of programme specific SCOs (mainly lump sums for preparation costs and small projects), building on the programme-specific lump sums used in the 2014-2020 period.

2.3. Combining the SCOs

As the programmes consider multiple off-the-shelf flat rates, it is important to acknowledge the possibility to combine different types of SCOs in the same project and for the same beneficiary. For example, the same project/beneficiary using both 15% indirect cost flat rate and 15% flat rate on travel and accommodation.

In order to do so, the following condition has to be observed: “...provided that each form covers different categories of costs or where they are used for different projects forming a part of an operation or for successive phases of an operation”⁵. This means that SCOs can be combined with real costs, as well as other SCOs.

In this respect, Interact has prepared an **overview on possible combinations** of off-the-shelf and programme specific SCOs⁶:

SCOs combinations		Off-the-shelf SCOs						Programme-specific SCOs				
		20% staff costs	15% admin costs	7% admin costs	15% travel costs ⁹⁾	1720h staff costs	40% all other costs	unit cost staff	flat rate staff	25% admin costs	unit costs activities	lump sum activities
Off-the-shelf SCOs	20% staff costs		Y	Y	Y**	N	N	N	N	Y	Y*	Y*
	15% admin costs	Y		N	Y	Y	N	Y	Y	N	Y*	Y*
	7% admin costs	Y	N		Y	Y	N	Y	Y	N	Y*	Y*
	15% travel costs ⁹⁾	Y**	Y	Y		Y	N	Y	Y**	Y	Y*	Y*
	1720h staff costs	N	Y	Y	Y		Y	Y	N	Y	Y*	Y*
	40% all other costs	N	N	N	N	Y		Y	N	N	N	N
Programme-specific SCOs	unit cost staff	N	Y	Y	Y	N	Y		N	Y	Y*	Y*
	flat rate staff	N	Y	Y	Y**	N	N	N		Y**	Y*	Y*
	25% admin costs	Y	N	N	Y	Y	N	Y	Y**		Y*	Y*
	unit costs activities	Y*	Y*	Y*	Y*	Y*	N	Y*	Y*	Y*		Y*
	lump sum activities	Y*	Y*	Y*	Y*	Y*	N	Y*	Y*	Y*	Y*	

⁵ Article 53(1)(f) of Common Provisions Regulation.

⁶ More information can be found here: <https://www.interact-eu.net/download/file/fid/23003>

3. The key considerations in choosing the SCOs

3.1. Off-the-shelf SCOs

One of the main conundrums faced by the programmes that do not have much of a previous experience with the SCOs is the question: “Which options should we choose?”

With a number of off-the-shelf methods on the table, the choices are not always clear cut and they require a sound understanding of the projects that will be implemented in the future programme.

To support this, we would like to highlight the **exercise carried out by the Kolarctic Programme** in analysing the most appropriate off-the-shelf SCO options and comparing the project budgets by replacing travel, office and indirect costs with SCOs.

The starting point of the exercise was the following:

- the budgets of 26 standard projects were analysed;
- the costs of all partners from the participating countries were included in analysis;
- expenditure for personnel, travel, office, equipment and external services were reimbursed as real costs in 2014-2020;
- expenditure for indirect costs was reimbursed as maximum of 7% flat rate;
- projects with infrastructure investments were not included in the sample.

At individual project level, the calculation approach modelled the impact of the SCO choice:

Standard projects	Project No.1			Project No.2		
	Budget (EUR)	Budget with SCOs (EUR)	Conclusions	Budget (EUR)	Budget with SCOs (EUR)	Conclusions
Personnel	836 000	836 000	Same	796 000	796 000	Same
Travel	80 000	125 400	15% of salaries	288 000	119 400	15% of salaries
Equipment	252 000	252 000	Same	12 000	12 000	Same
Office	33 000		>Administration	0		>Administration
External services	106 000	106 000	Same	93 000	93 000	Same
Indirect	91 000		>Administration	83 000		>Administration
Administration		125 400	15% salaries		119 400	15% salaries
TOTAL	1 398 000	1 444 800	103% of original budget	1 272 000	1 139 800	90% of original budget

When it comes to **15% for travel and accommodation** costs, as well as **15% for indirect costs**, the analysis revealed the following:

Effect to the total budgets of the standard projects		
+ / - 10 %	+ / - 20 %	> 20 %
24 projects	2 projects	0 projects
92 %	8 %	0 %

When the **two-above mentioned SCO options** are applied, in the absolute majority of cases it would have a rather minor effect (+/- 10 %) on the total budget of the projects⁷.

At the same time, as the budgets of Kolarctic projects have high proportion of personnel costs, **20% flat rate for the staff costs**, as well as **40% flat rate of costs** other than staff costs, may work in some of the projects, but not in the majority of them.

26 standard projects (actual budgets, rounded)			Salaries and 15% flat rates		Salaries and 40% flat rate		Direct costs and 20% flat rate	
Budget lines	Total	%						
Personnel	21 045 000	56%	21 045 000	56%	21 045 000	71%	3 290 400	17%
Travel	3 876 000	10%	3 157 000	8%	8 418 000	29%	3 876 000	83%
Equipment	3 376 000	9%	3 376 000	9%			3 376 000	
Office + indirect	2 320 000	6%	3 157 000	8%			2 320 000	
External services	6 880 000	18%	6 880 000	18%			6 880 000	
Investment	0	0%	0	0%			0	
TOTAL	37 497 000	100%	37 615 000 (+0,3%)	100%	29 463 000 (-21,4%)	100 %	19 742 400 (-47,3%)	100%

A specific part of the analysis was dedicated to the micro-projects⁸, which were implemented in the last call for proposals. The exercise mainly focused on understanding whether the **40% flat rate of costs other than staff costs** could be an appropriate choice:

Micro-projects	Project No.1			Project No.2		
	Budget (EUR)	Budget with SCOs (EUR)	Conclusions	Budget (EUR)	Budget with SCOs (EUR)	Conclusions
Personnel	66 200	66 200	Same	47 800	47 800	Same
Flat rate 40%		26 480	40% of salaries		19 120	15% of salaries
Travel	13 100		>flat rate 40%	12 800		Same
External services	20 700		>flat rate 40%	39 400		>Administration
TOTAL	100 000	92 680	93% of original budget	100 000	66 920	67% of original budget

The option works well if the salaries are rather a big part of the budget. The flat rate was also tested for regular projects and it revealed **two main conclusions**, partially conflicting, implying that certain choices and sacrifices will have to be made when deciding on the most appropriate SCO. The conclusions were:

⁷ This does not take into account differences in country level budgets.

⁸ The project budget was limited to 50 000 Eur and included only the personnel, travel and external services budget lines.



- from the simplification perspective, the combination of staff costs as real costs and 40% flat rate of other costs than staff costs is the most practical and administratively easy model.
- from the usability and beneficiary-friendliness, the 40% flat rate on the other costs probably should not be the only one available option for micro-projects (as well as regular projects), as the project budgets are not homogenous enough to ensure that amounts calculated via flat rate are reasonably similar to what real costs could be.

This case study is a good example about how the **decision making can be supported by data and evidence** at the disposal of the programme:

Evidence from the 2014-2020 programmes is a useful source to decide which off-the-shelf SCOs are most appropriate for a particular programme.

Just to give two examples from the case study above:

- *15% for travel and accommodation and 15% for indirect costs were found as appropriate SCOs for absolute majority of the projects;*
- *40% flat rate for other eligible costs might work well with projects where proportion of staff costs is high, but might not be the most appropriate for the projects with bigger services/equipment/infrastructure component.*

3.2. Programme-specific SCOs

The programme-specific SCOs are being considered in part of the programmes. Similarly as in the ENI CBC, one of the most popular options is the **lump sum for the project preparation costs**. One of the programmes aims to develop the lump sum by using the so-called "*copy-paste method*", based on Article. 53 (3) (c) (d) of the Common Provisions Regulation:

*Article 53(3) future CPR – The amounts for the forms of grants referred to under point (b), (c) and (d) of paragraph 1, shall be established in one of the following ways:
 (...)
 (c) in accordance with the rules for application of corresponding unit costs, lump sums and flat rates applicable in Union policies for a similar type of operation,
 (d) in accordance with the rules for application of corresponding unit costs, lump sums and flat rates applied under schemes for grants funded entirely by the Member State for a similar type of operation,*

The programme considers this as a **good practice, ready to use** and **relatively easy to apply**, due to the similarity of the projects from the current and the next generation. The

Managing Authority has planned that the lump sum will be settled in each project under the following conditions:

- planning the costs of preparing a strong partnership in the project budget, which is part of the approved application form;
- travel and accommodation costs incurred before submitting the application form cannot be settled with real expenditure;
- the cost of preparing a strong partnership does not exceed EUR 5.000 per project;
- the effectiveness of the lump sum will be measured by the indicator of submitting the application form.

The straightforward option for developing the programme-specific SCOs is to analyse the historical data from the 2014-2020 programme beneficiaries.

There is no indication in the CPR of what is understood by similarity of projects and/or beneficiaries. It is for the Managing Authority to assess whether in a particular case the condition of similarity is fulfilled. As an example, projects and beneficiaries already eligible under the previous programme may be considered as similar to the project and beneficiary at stake and the calculation method and the corresponding unit costs / flat rates / lump sums of that scheme may be re-used in the operation at stake. As a general principle, all elements of the method that could have an impact on the unit cost / lump sum / flat rate should be taken into consideration.

Having said this, the use of the data regarding the preparatory costs in order to set the programme-specific lump sum and the so-called copy-paste method can be relatively easy options to apply.

If you are interested in developing programme-specific SCOs, our colleagues at Interact have prepared a "[Road map for a programme-specific SCO in the 2021-2027 period](#)" that addresses the full cycle of this development.

4. Raising awareness and knowledge on the SCOs

The programme bodies should think about **involving the applicants/beneficiaries and the controllers already from the design stage of SCOs**. The NEXT community discussion revealed that, even if the actual involvement of these stakeholders is rather minimal (for example, via awareness raising events), this will help with creating the necessary level of understanding for the controllers. In turn it will contribute to less *resistance* in later stages of implementation.

In practical terms, the conclusions for involving applicants/beneficiaries and controllers were similar: clear instructions, training, tools (such as checklists) and support during the whole project cycle are needed. However, the biggest challenge for the programme bodies will be to find the right balance between tools and timing.



4.1. Making the beneficiaries comfortable with the SCOs

Points for attention!			
Preparation of the SCOs and the call	During the call	Until the contract is signed	During the implementation
When preparing the SCOs, consult at least some current beneficiaries!	Training	Draft a management and activity plan	Instructions on how to operate with SCOs
Special focus on clarity of information about SCOs provided in guidelines for calls!	Practical support to applicants via online/written tools	Early warning on changes in reporting system	Clear instructions on what to do in case of overcompensation ⁹ , in particular for public bodies
	Specific checklist / info-material on what's allowed and what not		Train controllers. Why programmes may apply different SCOs

4.2. Making the controllers comfortable with the SCOs

Points of attention!		
While preparing the SCOs	Until the contract is signed	During the implementation
Consider involving them in task force / participation in the discussions	Communication is the key, but practical challenges remain (prioritisation!)	Timing is the key! Information / awareness rising aimed at the controllers prior to the start of verifications might be needed.
Special focus on clarity of information about SCOs provided in guidelines for calls!	Target the SCO awareness raising to specifically address the national controllers with no prior experience in SCOs.	To work with controllers so they perceive trainings as a knowledge incentive (a means to provide more efficient services)
Participate in the trainings (also trainings for beneficiaries/ events for both controllers and beneficiaries)	Use knowledge and refer to already existing SCOs - for example, 7% flat rate or the lump-sums!	Train controllers and cross-communicate why programmes may apply different SCOs

⁹ SCOs require an ex-ante approximation of costs based on, for example, historical or statistical data. It is inherent that SCOs may overcompensate or undercompensate to a limited extent the actual costs incurred and paid by the beneficiaries. However, this is considered acceptable under the applicable rules as SCOs established on a correct methodology are deemed a reliable proxy for real costs; any such overcompensation does not constitute a profit.

5. Reading list

❖ Due to the importance of SCOs in post-2020, the topic has been heavily supported since late 2019 by various activities of the Commission, Interact and other actors. At strategic level:

- Research documents on SCO use and intended use widely available;
- [EU-wide mapping](#) on SCO use.

Furthermore, the EC has established the network of ERDF/CF SCO practitioners. In their meetings, the network members have discussed current examples of SCOs, tested and exchanged on the new ideas for the future programmes, including practical aspects, such as audit of the SCOs. All the documents from the network meetings can be found [here](#).

❖ At operational level, the European Commission and Interact have strongly supported various aspects of the SCO development through written guidance. Some examples of documents / presentations are available on [Interact's website](#), in the [section dedicated to the SCOs](#)):

- Road map for a programme specific SCOs;
- Report on SCOs in the context of small-scale project and SPFs;
- Repository of SCOs in 2014-2020;
- Factsheet of draft budget method.

❖ The Commission has recently issued Q/A document on the most often asked questions regarding SCOs – [you can find it here](#).

